

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name LAKE ERIE TRANSPORTATION COMM.	County MONROE
Fiscal Year End JUNE 30, 2006	Opinion Date AUGUST 11, 2006	Date Audit Report Submitted to State SEPTEMBER 20, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


SE 2

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	NOT NEEDED THIS YEAR	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) ROBERTSON, EATON AND OWEN, PC		Telephone Number (517) 265-6154	
Street Address 121 N MAIN STREET		City ADRIAN	State MI
Authorizing CPA Signature 		Printed Name GARY OWEN	Zip 49221
		License Number 1101008646	

LAKE ERIE TRANSPORTATION COMMISSION

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

**WITH
INDEPENDENT AUDITORS' REPORT**

LAKE ERIE TRANSPORTATION COMMISSION

INDEPENDENT AUDITORS' REPORT

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

Our discussion and analysis of Lake Erie Transportation Commission's financial statements provides an overview of the Transportation Commission's financial activities for the fiscal year ended June 30, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Fund Net Assets provide information about the activities of the Transportation Commission and present a long-term view of the Transportation Commission's finances. Also, the financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and supplementary information.

- ◆ The first two statements are government-wide financial statements that provide both long-term and short-term information about the Transportation Commission's overall financial status. These statements report information about the Transportation Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenditures, and Changes in Fund Net Assets regardless of when cash is received or paid. The two government-wide statements report the Transportation Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities - this is one way to measure the Transportation Commission's financial health or position.
- ◆ The third statement is the Statement of Cash Flows which shows the change in cash and cash equivalents presenting all activity of the Transportation Commission on a cash basis.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by supplementary information that further explains and supports the information in the financial statements.

Reporting the Transportation Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Fund Net Assets report information about the Transportation Commission, as a whole, and about its activities in a way that helps answer the question of whether the Transportation Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Transportation Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are accounted for the Statement of Revenues, Expenditures, and Changes in Fund Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report the Transportation Commission's net assets and how they have changed. The reader can think of the Transportation Commission's net assets (the difference between assets and liabilities) as one way to measure the Transportation Commission's financial health or financial position. Over time, increases or decreases in the Transportation Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Transportation Commission, you need to consider additional factors such as changes in the general economy and changes in the laws related to Federal and State transportation funding.

Fund Financial Statements

The Transportation Commission has only one fund, the General Operating Fund, in which all of the Transportation Commission's activities are accounted. The General Operating Fund is a business-type fund, which accounts for activities on a full accrual basis.

Financial Analysis of the Transportation Commission as a Whole

The Transportation Commission's net assets increased 1.8% from \$1,937,366 to \$1,972,338 for the year ended June 30, 2006. The net assets and change in net assets are summarized below.

Net Assets

Net assets are divided between the three transit systems

Lake Erie Local Service System (LSS)
Monroe Essential Transportation System (ETS)
Bedford Local Service System

based on activity in each system. Also, a portion of net assets has been reserved for investment in capital assets (\$325,808); and a portion has been designated by the Commission for future capital improvements (\$1,000,000).

Net assets of each transit system must have a positive balance. If a deficit position occurs in one of the transit systems, the transfer is usually made from the LSS System to cover the deficit.

The net assets increased by \$34,972 during 2005-06. The primary reason for the increase was an increase in property tax revenue.

Net Assets (Continued)

The investment in capital assets (decreased) by \$(46,237).

Net assets for the years ended June 30, 2006 and 2005 follow:

	<u>2006</u>	<u>2005</u>
Current assets	\$ 2,107,206	\$ 1,881,322
Capital assets	<u>325,808</u>	<u>372,045</u>
Total assets	<u>2,433,014</u>	<u>2,253,367</u>
Long-term liabilities	228,146	228,801
Other liabilities	<u>232,530</u>	<u>87,200</u>
Total liabilities	<u>460,676</u>	<u>316,001</u>
Net assets:		
Invested in capital assets	325,808	372,045
Designated for future capital improvements	1,000,000	1,000,000
Transit system balances	<u>646,530</u>	<u>565,321</u>
Total net assets	<u>\$ 1,972,338</u>	<u>\$ 1,937,366</u>

Changes in Net Assets

A summary of changes in net assets for the years ended June 30, 2006 and 2005 follows:

	<u>2006</u>	<u>2005</u>
Revenues		
Operating revenue	\$ 336,735	\$ 284,408
Nonoperating revenue – local	1,416,787	1,196,097
Grants	<u>1,599,093</u>	<u>1,828,580</u>
Total revenues	3,352,615	3,309,085
Operating expenditures	<u>(3,387,788)</u>	<u>(3,112,053)</u>
Increase (decrease) in net assets	<u>\$ (35,173)</u>	<u>\$ 197,032</u>

Total revenues were \$3,352,615, an increase of \$43,530 as compared to last year. The change in revenues resulted primarily from an increase in property taxes of \$172,859. Federal and State grants decreased \$(229,487). Total expenditures were \$3,387,788, an increase of \$275,735 as compared to prior year.

Budgetary Highlights

General Fund Budgetary Highlights

The budget for fiscal year 2006 was \$3,350,000; depreciation is not included in the budget. Expenses not including depreciation for FY 2006 were \$3,341,551, resulting in expenses better than budget by \$8,449 (less than 1% variance). Below is a summary of budget items:

- Wages (Drivers, Supervisors, Dispatchers, Maintenance and Administrative) when added together were over budget by \$15,485, (less than 1%).
- Fringe benefits were 6% better than budget due to the implemented changes in health coverage providing less cost increase than expected.
- Fuel cost exceeded budget by 3.5%
- Insurance cost exceeded budget by 12.5% mainly due to delivery of new vehicles
- Parts cost exceeded budget by 12%
- Professional cost were below budget by 5%
- Utilities exceeded budget by 48%

The budget is prepared six months before the start of the new fiscal year. This at times makes it difficult to budget line items that fluctuate daily due to influences beyond managements control. However management strives to keep its overall budget in line with its overall expenses.

Capital Assets

Capital Assets

As of June 30, 2006, the Transportation Commission had invested \$325,808 in capital assets. This amount represents a net (decrease) of \$(46,237), which represents depreciation taken for the year.

	<u>2006</u>	<u>2005</u>	<u>Total Percentage Change</u>
Capital Assets Being Depreciated			
Buildings	\$ 229,035	\$ 229,035	0 %
Vehicles	<u>256,260</u>	<u>256,260</u>	0 %
Total capital assets	485,295	485,295	
Total accumulated depreciation	<u>(159,487)</u>	<u>(113,250)</u>	
Total net capital assets	<u>\$ 325,808</u>	<u>\$ 372,045</u>	

Economic Factors and Next Year's Budget

Economic factors and the 2007 Fiscal Year budget:

- Fuel and utility cost fluctuate to a great extent. The FY 07 budget allows for a fuel increase of 20% and utility cost increase of 50%
- Construction of the new bus parking garage and expansion of the maintenance facility is expected to be completed by July 2007.
- LETC will levy in the City of Monroe and Frenchtown Township for FY 2007 the full .5 mill allowed. April 2008 is the next planned millage request.
- The last year of the transit management contract is July 1, 2007 through June 30, 2008.

Contacting the Commission's Financial Management

This financial report is designed to provide the citizens and other interested parties a general overview of the Transportation Commission's finances and to show the Transportation Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Lake Erie Transportation Commission, 1105 West Seventh Street, Monroe, Michigan 48161.

To the Board of Directors
Lake Erie Transportation Commission
Monroe, Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the business-type activities of Lake Erie Transportation Commission, as of and for the years ended June 30, 2006 and 2005, which comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lake Erie Transportation Commission's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Lake Erie Transportation Commission, as of June 30, 2006 and 2005, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2006 on our consideration of Lake Erie Transportation Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

To the Board of Directors
Lake Erie Transportation Commission
Monroe, Michigan

The management's discussion and analysis on pages i through v is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise Lake Erie Transportation Commission's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is also not a required part of the basic financial statements of Lake Erie Transportation Commission. Such information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
August 11, 2006

To the Board of Directors
Lake Erie Transportation Commission
Monroe, Michigan

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the business-type activities of Lake Erie Transportation Commission, as of and for the year ended June 30, 2006, which comprise Lake Erie Transportation Commission's basic financial statements and have issued our report thereon dated August 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Lake Erie Transportation Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Directors
Lake Erie Transportation Commission
Monroe, Michigan

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Lake Erie Transportation Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
August 11, 2006

LAKE ERIE TRANSPORTATION COMMISSION

STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

	<u>Business-Type Activity</u>	
	<u>General Operating</u>	
ASSETS	<u>2006</u>	<u>2005</u>
Current assets:		
Cash	\$ 649,998	\$ 547,678
Investments	1,010,991	897,331
Due from SMART	315,418	301,835
Accounts receivable – other	49,151	41,818
Prepaid insurance	32,994	30,221
Inventory	<u>48,654</u>	<u>62,439</u>
Total current assets	<u>2,107,206</u>	<u>1,881,322</u>
Capital assets:		
Vehicles	256,260	256,260
Building	229,035	229,035
Accumulated depreciation	<u>(159,487)</u>	<u>(113,250)</u>
Capital assets – net	<u>325,808</u>	<u>372,045</u>
Total assets	<u>\$ 2,433,014</u>	<u>\$ 2,253,367</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 32,189	\$ 10,454
Due to Smart	113,841	44,503
Accrued payroll and related taxes	26,703	20,131
Deferred revenue	<u>59,797</u>	<u>12,112</u>
Total current liabilities	<u>232,530</u>	<u>87,200</u>
Long term liabilities:		
Advance from SMART (Note 2)	150,000	150,000
Accrued sick pay	30,266	27,323
Accrued vacation	<u>47,880</u>	<u>51,478</u>
Total long term liabilities	<u>228,146</u>	<u>228,801</u>
Total liabilities	<u>460,676</u>	<u>316,001</u>
Net assets:		
Invested in capital assets	325,808	372,045
Designated for future capital improvements	1,000,000	1,000,000
Lake Erie Local Service System (LSS)	547,943	498,321
Monroe Essential Transportation Services (ETS)	84,849	58,835
Bedford Local Service System	<u>13,738</u>	<u>8,165</u>
Total net assets	<u>\$ 1,972,338</u>	<u>\$ 1,937,366</u>

The notes to the financial statements are an integral part of this statement.

LAKE ERIE TRANSPORTATION COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS

**For the Year Ended June 30, 2006
With Comparative Totals for the Year Ended June 30, 2005**

	<u>LSS</u>	<u>ETS</u>	<u>Bedford</u>	<u>2006</u>	<u>Totals</u> <u>2005</u>
Operating revenues:					
Passenger fares	\$ 124,237	\$ 28,739	\$ 7,216	\$ 160,192	\$ 118,137
Contracts		175,380		175,380	165,710
Other	<u>1,163</u>	<u></u>	<u></u>	<u>1,163</u>	<u>561</u>
Total operating revenues	<u>125,400</u>	<u>204,119</u>	<u>7,216</u>	<u>336,735</u>	<u>284,408</u>
Operating expenditures:					
Operations	1,722,673	402,775	125,980	2,251,428	2,015,062
Maintenance	447,764	134,372	43,068	625,204	581,837
Administrative	354,589	116,388	40,179	511,156	512,384
RTAP expenses					2,075
Section 5313 expense	<u></u>	<u></u>	<u></u>	<u></u>	<u>695</u>
Total operating expenses	<u>2,525,026</u>	<u>653,535</u>	<u>209,227</u>	<u>3,387,788</u>	<u>3,112,053</u>
Deficiency of revenues under expenditures	<u>(2,399,626)</u>	<u>(449,416)</u>	<u>(202,011)</u>	<u>(3,051,053)</u>	<u>(2,827,645)</u>
Nonoperating revenues – Local:					
City of Monroe taxes	451,054			451,054	398,886
Frenchtown Township taxes	542,851			542,851	422,160
Monroe Township	24,647			24,647	23,870
Bedford support			122,308	122,308	102,827
Commission on Aging		157,602		157,602	155,829
Interest income	46,117	347		46,464	34,762
Advertising	39,617			39,617	37,362
Other	<u>32,244</u>	<u></u>	<u></u>	<u>32,244</u>	<u>20,401</u>
Total nonoperating revenues – local	<u>1,136,530</u>	<u>157,949</u>	<u>122,308</u>	<u>1,416,787</u>	<u>1,196,097</u>
Grants:					
CMAQ					160,000
Section 5313					695
Act 51	916,228	215,431	83,615	1,215,274	1,280,691
Section 5311	20,706	81,813		102,519	127,994
RTAP					2,075
Section 5307	<u>281,300</u>	<u></u>	<u></u>	<u>281,300</u>	<u>257,125</u>
Total grant revenues	<u>1,218,234</u>	<u>297,244</u>	<u>83,615</u>	<u>1,599,093</u>	<u>1,828,580</u>
Total nonoperating revenues	<u>2,354,764</u>	<u>455,193</u>	<u>205,923</u>	<u>3,015,880</u>	<u>3,024,677</u>
Net income (loss)	(44,862)	5,777	3,912	(35,173)	197,032
Net assets – beginning of year	1,870,366	58,835	8,165	1,937,366	1,740,334
Adjustment for prior year settlement	<u>48,247</u>	<u>20,237</u>	<u>1,661</u>	<u>70,145</u>	<u></u>
Net assets – end of year	<u>\$ 1,873,751</u>	<u>\$ 84,849</u>	<u>\$ 13,738</u>	<u>\$ 1,972,338</u>	<u>\$ 1,937,366</u>

The notes to the financial statements are an integral part of this statement.

LAKE ERIE TRANSPORTATION COMMISSION

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2006 and 2005

DECREASE IN CASH

	<u>2006</u>	<u>2005</u>
Cash flows from operations:		
Cash received from passenger fares and contracts	\$ 329,402	\$ 268,546
Cash paid to suppliers and employees	<u>(3,232,893)</u>	<u>(3,176,548)</u>
Net cash used in operating activities	<u>(2,903,491)</u>	<u>(2,908,002)</u>
Cash flows from noncapital financing activities:		
Contributions from local governments and agencies	1,366,841	1,161,335
Federal and State grants	1,585,510	1,839,970
Increase (decrease) in deferred revenue	47,685	353
Increase (decrease) in accrued sick pay	2,943	1,864
Increase (decrease) in accrued vacation	<u>(3,598)</u>	<u>6,430</u>
Net cash provided by financing activities	<u>2,999,381</u>	<u>3,009,952</u>
Cash flows from capital financing activities:		
Acquisition of fixed assets	<u> </u>	<u>(141,966)</u>
Cash flows from investing activities:		
Interest received	<u>46,464</u>	<u>34,762</u>
Net decrease in cash	142,354	(5,254)
Cash at beginning of year	<u>1,445,009</u>	<u>1,450,263</u>
Cash at end of year	<u>\$ 1,587,363</u>	<u>\$ 1,445,009</u>

Cash includes amounts in demand deposits as well as investments with a maturity date within three months of the date acquired.

LAKE ERIE TRANSPORTATION COMMISSION

STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2006 and 2005

**RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED
IN OPERATING ACTIVITIES**

	<u>2006</u>	<u>2005</u>
Net operating loss	\$ (3,051,053)	\$ (2,827,645)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	46,238	34,716
(Increase) decrease in receivables	(7,333)	(15,862)
(Increase) decrease in inventory	13,785	873
(Increase) decrease in prepaids	(2,773)	24,381
(Decrease) increase in accounts payable	21,735	(64,584)
(Decrease) increase in other payables	<u>75,910</u>	<u>(59,881)</u>
Total adjustments	<u>147,562</u>	<u>(80,357)</u>
Net cash used in operating activities	<u>\$ (2,903,491)</u>	<u>\$ (2,908,002)</u>

The notes to the financial statements are an integral part of this statement.

LAKE ERIE TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For financial reporting purposes, Lake Erie Transportation Commission includes all funds and accounts that are controlled by the Commission.

Lake Erie Transportation Commission is a primary governmental unit with no outside component units.

Lake Erie Transportation Commission (LETC) is engaged under contract with the Suburban Mobility Authority For Regional Transportation (SMART) to set policy and provide funding for public transportation to Monroe County residents, with the Monroe Essential Transportation Service giving priority to elderly and physically and mentally impaired persons, and the Bedford and Lake Erie Local Service System providing general public transportation. Under the terms of the contract, transportation equipment is provided by SMART. The building and grounds presently occupied by the Commission are owned by SMART and made available rent free.

Management services are provided under contract with SMART by First Transit America, a Division of FirstGroup America, Inc.

The accounting policies of Lake Erie Transportation Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Effective July 1, 2003, Lake Erie Transportation Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the statement include the following:

- ♦ A Management's Discussion and Analysis (MD&A) section providing an analysis of the Commission's overall financial position and results of operations has been included with the financial statements.
- ♦ Financial statements prepared using full accrual accounting for all of the Commission's activities.
- ♦ A change in the fund financial statements to focus on the major fund.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Commission has elected to implement the general provisions of the statement.

Basic Financial Statements – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Fund Net Assets) report information on the activities of the Commission. Lake Erie Transportation Commission consists solely of a business-type activity; no governmental-type activity exists.

LAKE ERIE TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The financial statements are provided for the business-type fund which is the same as the governmental-wide financial statements.

The major individual fund (General Operating Fund) is reported in the financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

LETC uses the accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available for use in current operations. Expenses are recorded when the liability is incurred.

LETC accounts for its operations in a manner similar to private business enterprises, where the intent of LETC is that the costs (expenses including depreciation) of providing services to the general public on a continuing basis are financed through user charges, SMART subsidy, or local tax revenues. LETC is deemed to be an enterprise fund.

Monroe Essential Transportation Services (ETS), Lake Erie Local Service System (LSS), and Bedford Local Service System share common expenses. These expenses were allocated at year-end based on the number of actual bus hours, bus miles, and peak number of buses operated by each system during the year.

Cash and Investments – Cash and cash investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value.

Inventory – LETC maintains an inventory of repair and replacement parts at cost. Parts are charged to expense when they are used.

Fixed Assets and Depreciation – Fixed assets are stated at cost. Cost relating to maintenance and repairs are charged to expense. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LAKE ERIE TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 2: ADVANCE FROM SMART

SMART continues its advance to LETC in the sum of \$150,000, as the estimated amount of working capital funds required to maintain proper fiscal management. The advanced funds shall be deducted over the last two reimbursement payments under the current contract with SMART unless a successor contract has been entered into between the parties which provides for the continuance of the advance.

NOTE 3: ACCRUED SICK AND VACATION PAY

As provided in the union contract between LETC and the United Steelworkers of America, Local 2511, all non-probationary employees are eligible to accumulate sick leave to a maximum of forty (40) days. Leave is accumulated at three-quarters (3/4) days per month worked. At June 30, 2006, the liability for unused sick leave was \$30,266.

Also, LETC has accumulated vacation pay for those employees who have unused vacation time up to their anniversary date. The liability at June 30, 2006 was \$47,880.

NOTE 4: SETTLEMENTS RECEIVABLE AND PAYABLE

Estimated settlements due from SMART are as follows:

<u>Fiscal Year</u>	<u>Total Settlement</u>
2004-2005 (Bedford) Act 51	\$ 5,518
2004-2005 Sec 5311	228
2005-2006 Sec 5307	189,990
	<hr/>
	<u>\$ 195,736</u>

This receivable account also included May and June 2006 monthly grant payments from SMART totaling \$119,682.

Estimated settlements due to SMART on Act 51 and Section 5311 are as follows:

<u>Fiscal Year</u>	<u>Total Settlement</u>
1999---2000	\$ 1,731
2000---2001 (Receivable)	(1,199)
2001 - 2002	7,430
2002 - 2003	2,275
2003 - 2004	21,550
2004 - 2005	<hr/> 66,921
	<u>\$ 98,708</u>

The settlements payable are included in the amount 'Due to Smart' shown in the financial statements.

This payable account also included the June 2006 monthly expenses of \$15,133 reimbursed to SMART.

LAKE ERIE TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 5: FUNDING FROM SMART

SMART funding of the three systems operated by LETC consists of Federal and State funds which are received through SMART. Funding for the fiscal year ending June 30, 2006 was as follows:

<u>Amounts Received</u>	<u>LSS</u>	<u>ETS</u>	<u>Bedford</u>	<u>Adjustment For Fiscal Year 2004 – 2005 Settlements</u>	<u>Total</u>
Federal Funds:					
Section 5311	\$ 27,336	\$ 74,955	\$	\$ 228	\$ 102,519
Section 5307	91,310			189,990	281,300
State Funds:					
Act 51	<u>852,163</u>	<u>346,417</u>	<u>77,847</u>	<u>(61,153)</u>	<u>1,215,274</u>
Total	<u>\$ 970,809</u>	<u>\$ 421,372</u>	<u>\$ 77,847</u>	<u>\$ 129,065</u>	<u>\$ 1,599,093</u>

Included in the above amounts are expenses incurred by SMART on behalf of LETC in the amount of \$181,854.

NOTE 6: DEPOSITS AND INVESTMENTS

Investment Policy

Credit Risk – State statutes authorize Lake Erie Transportation Commission to invest in obligations of the U.S. Treasury, agencies, and instrumentalities: Commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptance of U.S. banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposit with banks and savings and loan associations, or credit unions that are insured with the applicable federal agency. Public funds of Lake Erie Transportation Commission may not be deposited in financial institutions located in states other than Michigan. The Commission has authorized one depository, Fifth Third Bank.

The Commission has no policy on limiting uninsured or uncollateralized deposits. Nor does it have a policy on limiting concentration of credit risk.

Interest Rate Risk – The Commission has no policy on interest rate risk.

Custodial Credit Risks – Deposits

All deposits are in the form of checking accounts with Fifth Third Bank. The carrying value of LETC's deposits was \$649,998 at June 30, 2006 and the bank balances were \$676,085. Of the bank balance, \$576,085 was uninsured and uncollateralized and \$100,000 was covered by Federal depository insurance.

LAKE ERIE TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risks – Investments

All investments are with Fifth Third Securities, Inc. Investments at June 30, 2006 consist of:

	<u>Market Value</u>
U.S. Government Money Market Fund, fixed, 4.77%	\$ 334,714
Federal Home Loan Mortgage, 4.00%, 7-15-11	297,286
Federal National Mortgage Association, 4.0%, 1-25-27	140,609
Savings Account 4.3%	238,382
	<hr/>
	<u>\$ 1,010,991</u>

The above investments are not exposed to credit risks.

Interest Rate Risks – Investments

The money market investment is not subject to interest rate risks because its shares are always valued at \$1.00. The government securities have interest rate risks as shown above by their maturities and interest rates.

NOTE 7: TAX REVENUE

During 2005, Frenchtown Township levied .474 mills for the LSS System based on a property taxable value of \$1,148,206,644 and the City of Monroe levied .4825 mills for the LSS System based on a property taxable value of \$927,000,000.

NOTE 8: CAPITAL ASSETS

All buildings, vehicles, and equipment used by Lake Erie Transportation Commission are owned by SMART or the State of Michigan.

The capital asset values shown on the financial statements represent LETC's share of funding of the transfer station (building) and certain vehicles.

NOTE 9: CONTINGENCIES

Lake Erie Transportation Commission is subrecipient of mass transit operating assistance funds from the State of Michigan and the Federal Government. Suburban Mobility Authority for Regional Transportation (SMART) is the primary recipient of these funds passing them through to Lake Erie Transportation.

LAKE ERIE TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 9: CONTINGENCIES (Continued)

The State of Michigan conducts examinations of prior years' eligible cost related to this funding and may raise questions concerning eligibility of certain costs for reimbursement. The ultimate outcome cannot presently be determined. Accordingly, no provision for any loss that may result from the resolution of this matter has been made in the accompanying financial statements.

NOTE 10: TRANSFERS BETWEEN SYSTEMS

Over the years, Lake Erie Local Service System has made transfers of funds to the other two systems, Monroe Essential Transportation Service System and Bedford Local Service System, to cover deficit balances. The Monroe Essential Transportation Service System has \$32,952 non-reimbursed transfers, while the Bedford System has had \$67,044 non-reimbursed transfers since 1981.

NOTE 11. PENSION PLANS

Lake Erie Transportation Commission has two pension plans.

One plan covers union employees. This plan is a multi-employer defined benefit plan administered by the Steelworkers Pension Trust. The plan is funded by employer contribution only. The contribution for fiscal year 2005-06 was \$29,175. No current actuarial information is available.

The second pension plan for all other full-time employees is a money purchase plan through the Michigan Employees Retirement System (MERS) and the plan administrator is the ICMA Retirement Corporation. The plan is funded by employer only based on 2% of participant's earnings. This contribution was \$5,141.

LAKE ERIE TRANSPORTATION COMMISSION

SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL

For the Year Ended June 30, 2006

With Comparative Totals for the Year Ended June 30, 2005

	<u>LSS</u>	<u>ETS</u>	<u>Bedford</u>	<u>Total</u>	2006 <u>Budget</u>	2005 <u>Total</u>
Operations:						
Drivers' wages	\$ 789,840	\$ 167,932	\$ 51,476	\$ 1,009,248	\$ 982,035	\$ 938,412
Supervisor salary	68,990	14,668	4,496	88,154	79,101	79,452
Dispatchers' wages	85,275	18,131	5,558	108,964	109,949	105,632
Fringe benefits	409,183	86,999	26,668	522,850	562,445	508,209
Fuel and lubricants	206,748	62,044	19,886	288,678	279,000	184,311
Tires and tubes	12,475	3,744	1,200	17,419	39,999	14,989
Other materials	5,575	1,185	363	7,123	5,001	9,248
Vehicle insurance	105,633	35,211	14,084	154,928	130,000	127,094
Travel and meetings	6,126	1,302	399	7,827	10,000	12,999
Depreciation	<u>32,828</u>	<u>11,559</u>	<u>1,850</u>	<u>46,237</u>		<u>34,716</u>
Total operations	<u>1,722,673</u>	<u>402,775</u>	<u>125,980</u>	<u>2,251,428</u>	<u>2,197,530</u>	<u>2,015,062</u>
Maintenance:						
Wages	243,187	72,979	23,391	339,557	356,488	333,733
Fringe benefits	108,622	32,597	10,448	151,667	154,967	134,123
Other services	22,721	6,819	2,185	31,725	30,000	34,007
Materials	72,402	21,727	6,964	101,093	90,000	79,027
Miscellaneous	<u>832</u>	<u>250</u>	<u>80</u>	<u>1,162</u>	<u>2,750</u>	<u>947</u>
Total maintenance	<u>447,764</u>	<u>134,372</u>	<u>43,068</u>	<u>625,204</u>	<u>634,205</u>	<u>581,837</u>
Administrative:						
Wages	45,438	15,146	6,058	66,642	69,507	63,177
Fringe benefits	19,799	6,600	2,640	29,039	29,781	30,775
Professional services	174,028	56,201	16,105	246,334	259,977	270,232
Supplies	10,859	3,620	1,448	15,927	15,000	8,294
Utilities	27,273	9,091	3,636	40,000	27,000	37,883
Telephone	18,146	6,049	2,419	26,614	27,000	21,369
Insurance	19,015	6,338	2,535	27,888	32,500	22,635
Travel and meetings	17,777	4,092	1,677	18,006	30,000	2,805
Advertising and promotion	24,664	8,221	3,289	36,174	25,000	42,882
Miscellaneous	<u>3,090</u>	<u>1,030</u>	<u>412</u>	<u>4,532</u>	<u>3,500</u>	<u>12,332</u>
Total administrative	<u>354,589</u>	<u>116,388</u>	<u>40,179</u>	<u>511,156</u>	<u>518,265</u>	<u>512,384</u>
RTAP expense		-	-		-	2,075
Section 5313 expense		-	-		-	695
Total operating expenses	<u>\$ 2,525,026</u>	<u>\$ 653,535</u>	<u>\$ 209,227</u>	<u>\$ 3,387,788</u>	<u>\$ 3,350,000</u>	<u>\$ 3,112,053</u>

LAKE ERIE TRANSPORTATION COMMISSION
SCHEDULE OF NET ELIGIBLE COSTS COMPUTATION

For the Year Ended June 30, 2006
And Recap of Fiscal Year Ended September 30, 2005

	LAKE ERIE LOCAL SERVICE SYSTEM	
	7/01/05 <u>9/30/05</u>	10/01/05 <u>6/30/06</u>
Expenses:		
Operations	\$ 439,229	\$ 1,283,444
Maintenance	109,244	338,520
Administrative	90,772	263,817
RTAP expenses		
Section 5313 expense	<u> </u>	<u> </u>
Total expenses	639,245	1,885,781
Ineligible expenses:		
Less: Depreciation expense	(8,207)	(24,621)
Less: RTAP expenses reimbursed		
Less: Section 5313 reimbursement		
Less: CMAQ		
Less: APTA Dues	<u>(107)</u>	<u>(41)</u>
Net eligible expenses – Act 51	<u>\$ 630,931</u>	<u>\$ 1,861,119</u>
Net eligible expenses – Section 5311 – 100%		
Net eligible expenses – Section 5311 – 10%	<u>\$ 63,093</u>	<u>\$ 186,112</u>
Net eligible expenses – Section 5307 – 90%	<u>\$ 567,838</u>	<u>\$ 1,675,007</u>
Grant Reimbursement Received – Act 51, Section 5311, and Section 5307		
Act 51	187,053	665,110
Section 5311	5,580	21,756
Section 5307	<u>91,310</u>	<u> </u>
Total grant reimbursement	<u>\$ 283,943</u>	<u>\$ 686,866</u>

MONROE ESSENTIAL TRANSPORTATION SERVICES		BEDFORD LOCAL SERVICE SYSTEM		<u>Total</u>
<u>7/01/05</u> <u>9/30/05</u>	<u>10/01/05</u> <u>6/30/06</u>	<u>7/01/05</u> <u>9/30/05</u>	<u>10/01/05</u> <u>6/30/06</u>	
\$ 106,564	\$ 296,211	\$ 23,774	\$ 102,206	\$ 2,251,428
36,478	97,894	8,428	34,640	625,204
25,599	90,789	5,719	34,460	511,156
<hr/>		<hr/>		<hr/>
168,641	484,894	37,921	171,306	3,387,788
(2,890)	(8,669)	(462)	(1,388)	(46,237)
<hr/>		<hr/>		<hr/>
				(148)
<u>\$ 165,751</u>	<u>\$ 476,225</u>	<u>\$ 37,459</u>	<u>\$ 169,918</u>	<u>\$ 3,341,403</u>
<u>\$ 165,751</u>	<u>\$ 476,225</u>			<u>\$ 641,976</u>
				<u>\$ 249,205</u>
				<u>\$ 2,242,845</u>
\$ 103,289	\$ 243,128	\$ 11,157	\$ 66,690	\$ 1,276,427
7,920	67,035			102,291
<hr/>		<hr/>		<hr/>
<u>\$ 111,209</u>	<u>\$ 310,163</u>	<u>\$ 11,157</u>	<u>\$ 66,690</u>	<u>\$ 1,470,028</u>

LAKE ERIE TRANSPORTATION COMMISSION
SCHEDULE OF NET ELIGIBLE COSTS COMPUTATION

For the Year Ended June 30, 2006

And Recap of Fiscal Year Ended September 30, 2005

**LAKE ERIE LOCAL
SERVICE SYSTEM**

Recap of Fiscal Year From October 1, 2004 to September 30, 2005

Net eligible expense for fiscal year – Act 51	<u>\$ 2,109,703</u>
Net eligible expense for fiscal year – Section 5311	<u>210,085</u>
Maximum reimbursement:	
Act 51 (39.9234% of eligible expenses)	842,265
Act 51 (33.4938% of eligible expenses)	
Section 5311 (12.4% of eligible expenses)	<u>26,051</u>
Total	<u>868,316</u>
Amount received:	
Act 51	778,200
Section 5311	<u>32,681</u>
Total	<u>810,881</u>
Due from (to) Smart	<u>\$ 57,435</u>

**MONROE ESSENTIAL
TRANSPORTATION
SERVICES**

**BEDFORD LOCAL
SERVICE SYSTEM
SERVICE SYSTEM**

\$ 706,808

\$ 150,437

706,808

-

282,182

50,387

87,644

50,387

369,826

50,387

413,168

44,619

80,786

44,619

493,954

44,619

\$ (124,128)

\$ 5,768

LAKE ERIE TRANSPORTATION COMMISSION
NOTES ON INELIGIBLE EXPENSES AND REVENUES
For the Year Ended June 30, 2006

APTA Dues

APTA dues were paid in fiscal year 2005-2006.

Depreciation

Depreciation expense is a non-allowable expense because in this case it represents partial expensing of the local contribution on the buses and street car purchased, and transfer facility.

Audit Fee

A transit agency was required to have a single audit for the prior year. As such, the cost of the annual financial audit was an eligible expense under Section 5311.

LAKE ERIE TRANSPORTATION COMMISSION

SCHEDULE OF MILEAGE DATA

For the Year Ended June 30, 2006

	<u>LSS</u>	<u>ETS</u>	<u>Bedford</u>	<u>Total Mileage</u>
<u>Demand Response:</u>				
First Quarter	\$ 154,879	\$ 51,742	\$ 11,965	\$ 218,586
Second Quarter	157,075	43,918	10,555	211,548
Third Quarter	159,653	45,965	19,343	224,961
Fourth Quarter	<u>159,998</u>	<u>47,917</u>	<u>18,887</u>	<u>226,802</u>
Total operation	<u>\$ 631,605</u>	<u>\$ 189,542</u>	<u>\$ 60,750</u>	<u>\$ 881,897</u>